

Message Text

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ACTION SS-30

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S E C R E T TEHRAN 6142

EXDIS

E.O. 11652: GDS

TAGS: ENRG, SA, IR

SUBJECT: SHAH'S VIEWS ON OIL PRICES, OTHER MATTERS

REF: A. STATE 152797

B. JIDDA 4073

1. DURING AUDIENCE WITH SHAH ON JULY 23 I MADE POINTS
CONTAINED REF A. THESE WERE TIED TO UPCOMING VISIT
EXXON CHAIRMAN JAMIESON AND BP DEPUTY CHAIRMAN STEEL.

2. SHAH'S RESPONSE, WHILE SHOWING UNDERSTANDING OF WORLD
ECONOMIC PROBLEMS, WAS A FORCEFUL REITERATION OF THE
POINTS HE HAS MADE OVER RECENT MONTHS BEGINNING WITH HIS
DECEMBER 23, 1973, PRESS CONFERENCE IN WHICH THE LAST MAJOR
OIL PRICE INCREASE WAS ANNOUNCED.

3. HE IS STILL EXERCISED ABOUT OIL COMPANY PROFITS.
IN RESPONSE TO A REMARK THAT OIL COMPANIES WERE CLEARING
ONLY 60 OR 70 CENTS A BARREL, THE SHAH SAID THAT TWO
YEARS AGO THEY WOULD HAVE BEEN DELIGHTED AT 20 CENTS A
BARREL. HE PLANS TAKE THIS UP WITH JAMIESON AND STEEL
NEXT WEEK. IN ADDITION HE IS STILL IRRITATED OVER

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EXORBITANT TAXES ON PETROLEUM PRODUCTS

ESPECIALLY IN WESTERN EUROPE.

4. IN MORE REFLECTIVE COMMENTS HE ACKNOWLEDGED THAT PRICE OF OIL "SHOULD BE NEGOTIABLE". AT THE SAME TIME HE INSISTED IT MUST BE PEGGED TO SOMETHING. SHAH BELIEVES ONLY RATIONAL GUIDEPOST TO BE COST OF ALTERNATE SOURCES OF ENERGY. HE MADE USUAL POINTS THAT PETROLEUM IS A WASTING, NON-RENEWABLE ASSET AND THAT THERE WAS NOTHING PRECISELY LIKE IT IN THE NATURAL WORLD.

5. SHAH SAID THAT HE HAD "NO INTEREST AT THIS TIME IN FORCING UP THE PRICE OF OIL" AS LONG AS IRAN IS ABLE TO MAINTAIN ITS PURCHASING POWER. FROM HIS POINT OF VIEW, THIS MEANS THAT INDUSTRIALIZED COUNTRIES MUST DO SOMETHING ABOUT INFLATION.

6. IN HIS DECEMBER 23 PRESS CONFERENCE, THE SHAH HAD SUGGESTED THAT REPRESENTATIVES OF OECD SIT DOWN WITH THE OPEC MEMBERS TO DISCUSS THE REAL VALUE OF OIL. HE EMPHASIZED THAT HIS SUGGESTION WAS A VERY SERIOUS ONE AND THAT "I STILL MEAN IT". NOTHING HAS COME OF IT, HE POINTED OUT. INSTEAD, THE UNITED STATES DECIDED TO GET THE OECD MEMBERS TOGETHER FOR A SERIES OF DISCUSSIONS WITH THE AIM OF EVENTUAL NEGOTIATIONS WITH PRODUCERS. AFTER ALMOST SEVEN MONTHS, NO ONE HAS COME FORWARD TO TALK REASONABLY EITHER WITH HIM OR ANY OF THE OTHER OPEC MEMBERS. THE SHAH HOPED IT WAS NOT ALREADY TOO LATE FOR MEANINGFUL TALKS TO TAKE PLACE.

7. THE SHAH FIRMLY REITERATED HIS VIEW THAT PRODUCERS AND CONSUMERS SHOULD SIT DOWN VERY SOON TO DISCUSS THE PROBLEMS OF BOTH SIDES INCLUDING ESPECIALLY THE INFLATION PROBLEM. HE SAID "I'LL BE REASONABLE" AS LONG AS THERE IS A REAL ATTEMPT TO MEET THE NEEDS OF THE PRODUCING COUNTRWES.

8. IN RESPONSE TO REMARKS ABOUT THE NEED TO RECYCLE PETRO DOLLARS, THE SHAH ASSERTED THAT IRAN IS DOING THE BEST IT CAN IN PROVIDING ROUGHLY ONE BILLION DOLLARS EACH FOR INDIA, EGYPT AND FRANCE IN ADDITION TO \$1.2 BILLION FOR
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UK, \$750 MILLION FOR PAKISTAN AND SMALLER AMOUNTS FOR SYRIA, SENEGAL AND OTHERS. HE IS PREPARED TO DO MORE.

9. CONCERNING THE EFFECTS OF THE KUWAIT/GULF AND BP AGREEMENT, POSSIBLE EFFECTS OF THE ARAMCO/SAUDI ARABIA NEGOTIATION, AND THE INCREASE IN ROYALTY PERCENTAGE BY TWO PERCENT, HE RECOGNIZED THAT THE EFFECTS OF THESE WOULD REDOUND TO IRAN'S BENEFIT IN THE FORM OF AN INCREASED

"BALANCING MARGIN", BUT HE ADDED, "I DID NOT DO THESE THINGS."

10. THE CONCLUSIONS THAT ONE CAN DRAW FROM THE SHAH'S RESPONSE ARE SEVERAL:

A. HE HAS NO RPT NO INTENTION OF TAKING ANY STEPS WHICH WOULD LEAD TO A REDUCTION IN OIL PRICES IN ADVANCE OF A CONSUMER-PRODUCER DIALOGUE.

B. IRAN SHARES OUR CONCERN OVER THE INTERNATIONAL ECONOMIC CONSEQUENCES OF OIL PRICE INCREASES AND WITHIN THE POSSIBILITIES AVAILABLE TO IT, AND WITHOUT DOING DAMAGE TO IRAN'S OWN PLANS AND PROGRAMS, IS PREPARED TO COOPERATE IN MEASURES TO ALLEVIATE THEM.

C. PRODUCER GOVERNMENTS' PROBLEMS MUST BE SERIOUSLY AND COMPLETELY DEALT WITH. (COMMENT: THESE PROBLEMS PRESUMABLY INCLUDE TRANSFER OF TECHNOLOGY, AVAILABILITY OF INDUSTRIAL AND OTHER COMMODITIES, INFLATION, AND CONCOMITANT QUESTION OF MAINTENANCE OF VALUE OF PRODUCING COUNTRIES' PURCHASING POWER.)

D. IRAN HAS NO RPT NO PREFERENCE AS TO THE FORM OF PRODUCER/CONSUMER DISCUSSIONS EXCEPT THAT THEY SHOULD BEGIN VERY SOON, PERHAPS INITIALLY WITH A SMALL TEAM ON EACH SIDE.

E. CONCERNING KING FAISAL'S STRONG SUGGESTION THAT THE US PUT PRESSURE ON IRAN (REF B), UNLESS THE FORM OF PRESSURE IS CLEARLY DEFINED AND THE FULL WEIGHT NOT ONLY OF THE UNITED STATES BUT OTHER CONSUMER GOVERNMENTS IS BEHIND IT, WE SEE NO RPT NO CHANCE OF ANY BENEFICIAL EFFECTS. WE FEEL OTHER AVENUES, INCLUDING PRODUCER/CONSUMER
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TALKS, SHOULD BE EXHAUSTED BEFORE ATTEMPTING TO APPLY SUCH PRESSURE.

11. THE TONE OF THE AUDIENCE DURING DISCUSSION ON OIL PRICES WAS FRIENDLY BUT FIRM. I WOULD NOT WISH TO LEAVE ANY DOUBT ABOUT THE SHAH'S DEDICATION TO THE PROPOSITION THAT OIL PRICES MUST REMAIN AT LEAST AT THEIR PRESENT LEVEL. HIS PERSONAL PRESTIGE AND THAT OF THE GOVERNMENT OF IRAN ARE FIRMLY ENGAGED. UNLESS WE ARE PREPARED TO MAKE CLEAR OUR INTENTION TO FOREGO CLOSE US RELATIONS WITH IRAN IN ORDER TO BRING OIL PRICES DOWN WITHOUT IRAN'S COOPERATION, WE SEE NO RPT NO ALTERNATIVE BUT TO PURSUE THE ROUTE OF MULTILATERAL NEGOTIATION BETWEEN PRODUCERS AND CONSUMERS.
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